REPORT ON EXAMINATION

OF

ESSEX INSURANCE COMPANY

AS OF

DECEMBER 31, 2004

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2004 of the

ESSEX INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: __________________________

DATE: 31 MAY 2006

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 31ST DAY OF MAY 2006.

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Insurance Commissioner

REPORT ON EXAMINATION

OF THE

ESSEX INSURANCE COMPANY

AS OF

December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 31 ST Day of MAY 2006.

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March 20, 2006

SALUTATION

Honorable Alfred W. Gross
Chairperson, Financial Condition
Subcommittee, NAIC
120 West 12th Street, Suite 1100
Kansas City, Missouri 64105-1925

Honorable Matthew Denn
Commissioner of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 05.003, dated February 4, 2005, an examination has been made of the affairs, financial condition and management of the:

ESSEX INSURANCE COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a stock company with its home office located at 4521 Highwoods Parkway, Glen Allen, Virginia.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2001. This examination covered the three year period from January 1, 2002 through December 31, 2004, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were discussed with responsible company officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, an information systems review was performed by the consulting firm of INS Services, Inc.

HISTORY

The Company was incorporated on February 29, 1980, under the laws of the State of Delaware. It began business on October 22, 1980, in Minnesota, as a stock insurance company licensed to transact health, credit health, property, marine transportation and casualty insurance.

The Company was brought to Richmond, VA in December 1985, and expanded its writings from property coverages to general liability, light to medium products, miscellaneous errors and omissions/professional liability, excess and umbrella. In addition, the Company also writes unusual or large property risks, cargo and inland marine and truck physical damage. On June 16, 1983, the Company amended its Certificate of Authority to include surety.

The Company is a diversified specialty insurance underwriting organization. Operations of the Company are conducted under management agreements with Underwriting Management Incorporated (UMI), a wholly-owned subsidiary of Markel Corporation. UMI provides underwriting, management, claims handling, accounting, investment and administrative services to the Company. The Company has no employees.

On December 31, 1991, the Company purchased National Specialty Insurance Company (NSIC) from the affiliated Evanston Insurance Company, for consideration equal to the statutory capital and surplus of NSIC ($4,670,432). The Company immediately contributed another $350,000 in capital to NSIC, bringing the total investment to $5,020,432. In connection with the reorganization, NSIC was re-domesticated from Colorado to Illinois and was renamed Richmond Insurance Company (RIC) on February 27, 1992. Effective September 30, 1994, RIC was merged with and into the Company, with the Company being the survivor.

In connection with the sale of the Company's former affiliate, Investors Insurance Company of America (now known as Specialty Surplus Insurance Company), to an unaffiliated company, Lumbermens Mutual Casualty Company ("Lumbermens"), effective January 1, 2000, the ownership interest in L.Z.L. Corporation, a California subsidiary corporation of Investors Insurance Company of America, was transferred to the Company.

On March 24, 2000, Markel Corporation ("Markel"), an insurance holding company domiciled in the Commonwealth of Virginia, completed its acquisition of Terra Nova (Bermuda) Holdings Ltd ("Terra Nova"), a Bermuda based insurance holding company whose insurance subsidiaries are based in Bermuda and the United Kingdom. Markel formed a new holding company, Markel Holdings Inc., which, in turn, formed a new subsidiary to enter into the merger with and into the existing Markel Corporation. In the merger, Markel shareholders received an identical number of shares in Markel Holdings. Markel Holdings also issued cash and securities to Terra Nova shareholders in exchange for their Terra Nova shares. Upon completion of the transaction, Markel, then known as Markel North America, Inc., and Terra Nova became wholly owned subsidiaries of Markel Holdings, and Markel Holdings changed its name to Markel Corporation.

Effective March 31, 2001, Markel North America, Inc., a Virginia domiciled corporation and wholly-owned subsidiary of Markel was merged into Markel. As a result of this merger transaction, Markel, the ultimate controlling parent of the Company has become the sole shareholder of the Company.

CAPITALIZATION

Common Capital Stock

The Company amended its Certificate of Incorporation on May 20, 1991 to retain the authorized number of common stock shares at 30,000 and change the par value of each share of common stock from $100 to $300. The Certificate of Amendment filed with the Secretary of State of the State of Delaware states that the certificates representing shares of common stock which previously had a par value of $100 per share thereafter represent shares of common stock having a par value of $300 per share. As a result of the change of par value, the 15,000 shares of issued and outstanding shares at December 31, 1995, provided capital paid up of $4,500,000.

All outstanding capital stock is owned by the parent, Markel Corporation, a publicly traded insurance holding company, located in Glen Allen, Virginia that trades on the New York Stock Exchange under the symbol MKL.

DIVIDENDS TO THE SHAREHOLDER

The Company paid dividends to Markel Corporation, its sole shareholder as follows for the three years under examination. The amounts paid amounted to:

2002	$-0-
2003	-0-
2004	21,739,924

MANAGEMENT AND CONTROL

The By-Laws provide that stockholders meetings shall be held on or about May 13th of each year in Richmond, Virginia or any other place or time so designated.

The number of directors shall be not less than three or more than eleven. Vacancies and newly created directorships may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election. The business of the corporation shall be managed by or under the direction of its board of directors, which may exercise all powers of the corporation and do all such lawful acts and things as are not prohibited by statute or by the certificate of incorporation or by these by-laws, and as directed or required to be exercised or done by the shareholders.

The board may, by resolution, designate one or more committees, each committee to consist of one or more of the directors. In general the committees have the same authority as the board, but in no case may any committee have the authority to 1): amend the certificate of incorporation; 2): adopt an agreement of merger or consolidation; 3): recommend to the stockholders the sale, lease or exchange of property and assets; 4): recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution; 5): amend the By-Laws; 6): have the power to issue a dividend; or 7): issue stock. Dividends may be declared by the Board at any regular or special meeting. They may be paid in cash, property or in shares of capital stock.

The following persons were elected to the Board of Directors on November 10, 2004 and were serving in that capacity at December 31, 2004:

Name & Residence	Principal Occupation
Alan Irvin Kirshner Montpelier, Virginia	Chairman of Markel Corporation and the Company
Anthony Foster Markel Richmond, Virginia	President of Markel Corporation, Vice Chairman of the Company
Steven Andrew Markel Richmond, Virginia	Vice Chairman of Markel Corporation and Executive Vice President of the Company
William Bradley Dickler Richmond, Virginia	President of the Company
Darrell Dean Martin Richmond, Virginia	Chief Financial Officer of Markel Corporation
Paul William Springman Richmond, Virginia	Executive Vice President of Markel Corporation
Jacquelyn S. Ash Bumpass, Virginia	Executive Vice President of the Company

The By-Laws state that the officers of the corporation shall be chosen by the board, and consist of a Chairman of the Board, a President, a Vice-President, a Secretary and a Treasurer. The board may choose any number of vice-presidents and assistants.

The following persons were elected as Officers on November 10, 2004 and were serving in that capacity at December 31, 2004:

Name	Office
Alan I. Kirshner	Chairman
Anthony F. Markel	Vice Chairman
Steven A. Markel	Executive Vice President
William Bradley Dickler	President and Chief Operating Officer
Jacquelyn S. Ash	Executive Vice President
Bruce A. Kay	Vice President
Jill G. Goldfine	Senior Vice President/Finance and Treasurer
Gregory B. Nevers	Secretary
Anne G. Waleski	Assistant Treasurer
Thomas J. Childress III	Assistant Secretary/Tax Director
Barbara J. Childress	Assistant Secretary
Paula A. Francis	Assistant Secretary
Linda S. Rotz	Assistant Secretary

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with Title 18, Chapter 49, §4919 of the Delaware Insurance Code.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is Markel Corporation, a Richmond, Virginia corporation. The following is an organizational chart that reflects the identities and interrelationships between the Company and its affiliated US insurers as of December 31, 2004:

Name	NAIC Code	State of Domicile	% Ownership
Markel Corporation		VA	
Essex Insurance	39020	DE	100
Gryphon Holding, Inc.		DE	100
Deerfield Insurance Company	37184	IL	100
Associated International Insurance Company	27189	IL	100
Markel Insurance Company	38970	IL	100
Markel American Insurance Company	28932	VA	100
Shand/Evanston Group, Inc.		VA	100
Evanston Insurance Company	35378	IL	100

Please refer to Schedule Y, Part 1 of the annual statement for other affiliated domestic and foreign companies and insurers. Copies of the "Form B Holding Registration Statements" filed with the Delaware Insurance Department, during the period under examination, were reviewed. It appears that the Company has complied with the provisions of Title 18, Chapter 50, §5004 of the Delaware Insurance Code.

MANAGEMENT AGREEMENT

Effective January 1, 1992, the Company entered into a "Management Agreement" with its affiliate, Underwriting Management, Inc. (UMI), which replaced the previous management agreement. Pursuant to this agreement, the Company granted underwriting authority to UMI to enter into producer agreements; receive and accept proposals of insurance; provide limits of liability and amounts of coverages; issue binders for a maximum of thirty (30) days; and to negotiate, cede or purchase any reinsurance (either treaty or facultative). In all cases it is expressed that UMI operate only within the guidelines and ultimate authority of the Company. The Company granted claims authority to UMI to adjust, settle, compromise, defend and litigate any and all claims arising out of the policies issued pursuant to this agreement. UMI also provided all employees; maintained complete underwriting and claim files, records and accounts of all transactions; and performed all other accounting functions. Subject to adjustment by mutual consent, UMI is compensated by a fee equal to 110% of their direct cost. This fee is paid on a monthly basis. Total fees paid to UMI under this agreement for 2004 were approximately $162,255,921. This agreement was amended on September 24, 1993. The amendment provided for clarification of UMI's responsibilities to include business management services as may be necessary or appropriate to the operation of the business affairs of the Company.

AFFILIATE AGREEMENTS

There is a service agreement between Markel Corporation ("Markel"), Underwriting Management, Inc. ("UMI") and the Company effective August 1, 2003 that allows Markel to issue checks on behalf of UMI and the Company.

Effective December 30, 1994, the Company entered into a "Tax Allocation Agreement" with all the other subsidiaries of the Markel Corporation (parent), as allowed by Section 1504 of the Internal Revenue Code. Pursuant to this agreement, the Company (and all other members) will compute its tax liability (including alternative minimum tax and environmental tax) in the manner it would regularly use in filing a separate federal income tax return, except that any intercompany transactions that are deferred on the parent consolidated federal income tax return will be deferred in computing the separate return tax liability until the deferred intercompany transaction is no longer deferred and is recognized on the consolidated return. The amount of any separate liability is paid to the parent. Any tax refund due to a member will be paid within thirty (30) days of filing the applicable consolidated return. This agreement was amended effective January 15, 1999 to delete and/or add parties to the agreement due to the acquisitions and/or deletions of subsidiaries within the Markel Group of companies.

On May 21, 1998, the Company executed an affiliated Investment Advisory Agreement dated September 30, 1998 with Markel Gayner Asset Management, Inc. (Markel Gayner). The agreement allows Markel Gayner to manage a discretionary investment portfolio for the Company with the expressed objective of capital appreciation. The agreement allows for an annual investment advisory fee equal to 1% of the portfolio's market value payable in quarterly installments. Pursuant to this agreement, the total amount paid to Markel Gayner in 2004 was $1,863,600.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2004, the Company was licensed in only one state, Delaware. It writes in all other states and in the District of Columbia as an excess and surplus lines carrier with the largest volumes in California, Florida, Texas, and Illinois. Essex assumes business from Investors Insurance Group and Lincoln Insurance Company, which includes some asbestos & environmental losses and exposure.

Plan of Operation

The Company is an excess and surplus-lines insurer focused on light-to-medium loss exposures which standard companies avoid writing. The Company markets its products through UMI, using managing general agents and brokers nationwide and wholesale agents for contract business. Products consist of casualty business to include primary general liability, product liability and excess and umbrella coverage; property business to include primary property coverage; specialty property to include excess and larger property risk; primary difference in conditions business including both earthquake and flood,; short line railroad and tough to place and unusual property exposures; transportation to include taxi cab liability and truck physical damage; inland marine to include motor truck cargo and truck physical damage and ocean marine to include hull and cargo exposures.

The Company, through UMI, produces business through professional surplus lines general agents who have limited quoting and binding authority. These agents operate under a general agency contract. The Company maintains control of the risks accepted by its agents through restrictive underwriting guidelines that require many risks to be submitted to the Company underwriters before binding. In addition, the Company reviews 100% of all bound policies for compliance with underwriting and policy issuance guidelines, producer binding authority and adherence to quoted rates and terms.

All policy files are maintained and processed through the Company's PRIMIS underwriting system and all reporting is done in the home office accounting department.

Business Plan

The Company does not maintain a formal long-range business plan, but does produce very extensive yearly business plans. The yearly plans provide a detailed analysis of each line of business; including key components, pricing, marketing and promotion, placement, producers and employees, support staff, how the line of business performed in the previous year versus the financial goals and projections for the current year, and finally, the critical factors that impact that line of business and must be addressed in the current year.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years:

Year	Admitted Assets	Surplus as Regards Policyholders	Net Premium Written	Net Income
2004	$939,451,888	$276,509,052	$391,385,526	$54,269,597
2003	806,750,075	217,399,248	356,628,686	28,335,092
2002	618,167,313	160,593,235	289,710,049	32,662,043
2001	495,172,921	112,742,454	186,842,612	(6,394,197)
2000	388,425,907	81,047,767	256,495,596	11,358,228

It is important to note that the Company has experienced significant growth during the period under examination. Growth over this most recent three-year period has taken the form of the following:

- A 90% increase in admitted assets.
- A 145% increase in surplus as regards policyholders.
- A 110% increase in net written premiums.

REINSURANCE

Assumed

The bulk of the assumed business was due to fronting agreements the Company participated in with affiliates. They were as follows:

- An agreement between the Company and Markel Insurance Company ("MIC") effective January 1, 1998. It is a quota share treaty where MIC cedes, to the Company, 100% of all miscellaneous property and casualty business underwritten or managed by UMI, except as excluded by the treaty.

- An agreement between the Company and Markel American Insurance Company ("MAIC") effective August 14, 1995. It is a quota share treaty where MAIC cedes, to the Company, 100% of all business underwritten or managed by UMI, except as excluded by the treaty.

- An agreement between the Company and Evanston Insurance Company ("EIC") effective August 14, 1995. It is a quota share treaty where EIC cedes, to the Company, 100% of all business underwritten or managed by UMI, for the Company, except as excluded by the treaty.

Total assumed premium from affiliates amounted to approximately $25.6 million or 89% of the Company's total assumptions at December 31, 2004. Net assumed reinsurance balances payable with affiliates at December 31, 2004 amounted to $77.9 million.

Effective January 1, 2000, the Company entered into a Bulk Reinsurance Agreement with Investors Insurance Company of America ("IICA") prior to the acquisition of IICA by Lumbermens Mutual Casualty Company ("Lumbermens") on January 1, 2000. Pursuant to this agreement, the Company assumed loss, allocated loss adjustment expenses and uncollectible reinsurance on IICA policies which were in effect prior to the closing of the Stock Purchase Agreement between Lumbermen's and Investors Underwriting Managers, Inc., the direct parent of Investors, effective January 1, 2000. The reinsurance premium paid by IICA was equal to all non-cash equivalent assets of IICA existing prior to the closing of the Agreement, less all liabilities other than loss reserves of IICA existing prior to the close of the Stock Purchase Agreement.

In addition to the above transactions involving the sale of Investors, Markel Corporation executed a guarantee, effective January 1, 2000, to Investors guaranteeing the due and punctual performance of all of the financial obligations of Essex set forth in or arising in connection with the Reinsurance Agreement between IICA and Essex.

Due to changes in collection status of several of the Company's reinsurers during 2004, the Company began accruing an allowance for uncollectible reinsurance. This allowance was booked to the ledger as an offset to the Company's ceded IBNR. In order to book the allowance, the Company booked a corresponding expense. The total allowance for uncollectible reinsurance in the Company's ledger was $3,050,000 at December 31, 2004.

During the calculation of Parts 5, 6 and 7 of Schedule F, a provision (penalty) was calculated for each reinsurer. The Company reduced the Schedule F provision by the allowance amount. The Company's theory is based on the assumption that they had already reduced their surplus for possible non-collection of reinsurance balances thus another reduction to surplus for the provision would be redundant. In order to determine the allocation of the allowance against the provisions calculated in Parts 5, 6 and 7, the Company calculated the provision in the regular manner and then offset it in full with the allowance in Parts 5 and 6. For Part 7, the Company calculated the provision in the regular manner and then applied what was left of the allowance after applying portions to Part 5 and 6. The Company can not arbitrarily deviate from the annual statement instructions without first requesting and receiving permission from the Delaware

Department of Insurance. The statement filing shall be the annual statement form approved by the National Association of Insurance Commissioners ("NAIC") prepared in accordance with NAIC annual statement requirements and NAIC accounting practices and procedures manual, except as otherwise prescribed or permitted by the Commissioner.

> **It is recommended that the Company adhere to the NAIC annual statement instructions in accordance with Title 18, Chapter 5, §526(a) until a request to and approval from the Delaware Department of Insurance for a permitted practice is obtained.**

Ceded

The Company has a comprehensive reinsurance program that is designed to protect it against catastrophic losses in all lines of business written. The Company has a policy requiring all unauthorized reinsurers to provide the Company with irrevocable letters of credit or trust accounts for the Company's benefit, which can be drawn on in the event the reinsurer fails to reimburse the Company for its share of paid claims. The Company was the beneficiary of irrevocable letters of credit or trust accounts in the amount of $18.4 million at December 31, 2004. In order to further reduce its credit risk, the Company seeks to do business only with financially sound reinsurance companies and regularly reviews the financial strength of all reinsurers used.

In regards to its program, the Company utilizes two types of reinsurance treaties: automatic and facultative. Automatic treaties are negotiated by the Company in three ways; 1) directly with the reinsurer; 2) through AON Reinsurance Incorporated, reinsurance intermediary or 3) through Arthur J. Gallagher, reinsurance intermediary. Based on set limits, these treaties cover all policies written within the different lines of business. Under the terms of the treaties, the reinsurer is obligated to accept this business, as long as it is issued in regards to the terms of the treaty.

The second type of treaty involves facultative reinsurance, which is negotiated on a policy-by-policy basis, by the Company directly with the reinsurer. This type of reinsurance is for those policies that have higher than normal limits or are not subject to the automatic treaties conditions, thus creating unique risk conditions or higher limits of exposure.

The following is a summary of the various reinsurance treaties in place as of December 31, 2004:

- **Property & Inland Marine –** the Company retains 100% of all business less than $1 million, except Boiler and MVP Equipment Maintenance Contract Property. Boiler is reinsured through a 100% quota share treaty. MVP Equipment Maintenance Contract Property is reinsured with a 50% quota share treaty up to $5 million.

- **Property Catastrophe** - attaches at $5,000,000 and goes to $400 million via six layers. This treaty provides for a cession of the ultimate net loss for the following layers:

    - 1st Layer – 95% of $10 million in excess of $5 million;
    - 2nd Layer – 95 % of $20 million in excess of $15 million;
    - 3rd Layer – 95% of $40 million in excess of $35 million;
    - 4th Layer – 100% of $75 million in excess of $75 million;
    - 5th Layer – 100% of $100 million in excess of $150 million;
    - 6th Layer – 100% of $150 million in excess of $250 million.

- **Property Catastrophe 7th Layer** - provides 100% cession of $75 million in excess of $400 million.

- **Essex Special Property Quota Share** - working layer for those risks identified as Essex Special Property. It provides for a 34.5% quota share up to the first $5 million each and every risk.

- **Essex Special Property Common Account –** provides 65.5% of $4 million in excess of $1 million. This caps the Company's Special Property exposure at $655,000 per risk.

- **Essex Special Property 2nd Risk Excess of Loss** - provides $10 million of coverage in excess of first $5 million. The first $5 million would be provided for under the ESP Common Account and Quota Share treaties.

- **Essex Special Property 3rd Risk Excess of Loss** - provides $10 million of coverage in excess of $15 million.

- **Casualty Excess of Loss –** the Company retains the first $1 million of coverage.

- **2nd Casualty Excess of Loss –** provides 50% of $1 million in excess of $1 million and 90% of $3 million in excess of $2 million.

- **Inland Marine Brokerage & Railroad Excess of Loss** - provides $500,000 of coverage excess of $500,000, each loss.

- **Inland Marine Brokerage & Railroad 2nd Excess of Loss** - provides $4 million of coverage excess of $1 million, each loss.

- **Ocean Marine 25% Quota Share** - provides 25% cession up to $1 million each insured, each covered part.

- **Ocean Marine Excess of Loss** - provides up to $4 million cession in excess of $1 million.

As noted above, as of December 31, 2004, the Company was actively ceding business to various reinsurers, including several Lloyds of London Syndicates, pursuant to the listed contracts. The Company reinsures almost exclusively with top rated, authorized reinsurers.

The Company reported reinsurance recoverables on paid losses and loss adjustment expenses of approximately $7.1 million dollars and total net recoverables from reinsurers of approximately $217.8 million, with $199.4 million (92%) recoverable from authorized carriers.

The Company had unsecured aggregate reinsurance recoverables from unaffiliated individual reinsurers that exceed 3% of the Company's policyholders' surplus at December 31, 2004 with the following companies:

Converium Reinsurance (North America), Inc.	$21.4 million

Folksamerica Reinsurance Company	15.9 million
Odyssey America Reinsurance Corporation	12.6 million
American Re-Insurance Company	11.3 million
XL Reinsurance America, Inc.	11.2 million
ACE Property Casualty Insurance Company	10.3 million

The Company participated in several treaties, whereby it ceded to an affiliate as part of a fronting arrangement. They were as follows:

- An agreement between the Company and MAIC. Effective January 1, 1995, it is a quota share treaty where the Company cedes, to MAIC, 100% of all business underwritten or managed by American Underwriting Managers Agency, Inc. ("AUM") except as excluded by the treaty.

- An agreement between the Company and MIC, effective January 1, 1998. It is a quota share treaty where the Company cedes, to MIC, 100% of all business underwritten or managed by Markel Service Inc. d/b/a Markel Underwriters and Brokers Management Inc., except as excluded by the treaty.

- An agreement between the Company and EIC, effective January 1, 1996. It is a quota share treaty where the Company cedes, to EIC, 100% of all business underwritten or managed by Shand Morahan & Company, Inc., except as excluded by the treaty.

Reinsurance premiums ceded to affiliates amounted to approximately $36.9 million or 20% of the Company's total cessions. The Company reported a total net recoverable from affiliates of approximately $52.2 million at December 31, 2004.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure. In general, it has been determined that the Company does have a sufficient level of controls in place for all the above areas.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. No material discrepancies were noted.

It was noted that the Company does not maintain an audit committee. An audit committee has been established at the holding company level. The audit committee consists of four outside members of the board of directors of Markel Corporation. The audit committee charter requires a minimum of two meetings per year, plus "as many additional times as the Committee deems necessary".

The Markel Corporation internal auditor department evaluates internal controls at each operational business unit and the corporate headquarters. There are no scope restrictions on the department's work. The internal audit department develops an annual audit plan that includes goals and objectives for the audit plan year. The department was made up of eight qualified auditors that included two directors, three senior auditors, three staff auditors plus support staff at December 31, 2004.

The consulting firm of INS Services, Inc. performed an Exhibit C review of the Company IT operations.

> **It is recommended that the Company give consideration to the INS Services, Inc. findings and begin implementing their recommendations regarding the Company's IT operations as noted in their independent report.**

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2004.

Assets
Liabilities, Surplus and Other Funds
Underwriting and Investment Exhibit
    Statement of Income
    Capital and Surplus Account

It should be noted that the various schedules and exhibits might not add to the totals shown due to rounding. With the exception of the Losses and Loss Adjustment Expenses accounts, write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the "exception basis". Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

ASSETS
DECEMBER 31, 2004

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets	Notes
Bonds	$562,786,233	$-0-	$562,786,233	
Preferred stocks	411,500		411,500	
Common stocks	224,876,266		224,876,266	
Cash and short-term investments	67,786,295		67,786,295	
Investment income due and accrued	7,033,888		7,033,888	
Uncollected premiums and agents' balances in course of collection	55,722,337	2,456,431	53,265,906	
Amounts recoverable from reinsurers	7,016,140		7,016,140	
Funds held by or deposited with reinsured Companies	1,730,507		1,730,507	
Net deferred tax asset	1,720,202		1,720,202	
Receivable from parent, subsidiaries and affiliates	3,467,247		3,467,247	
Receivable Caliber One Indemnity Company	353,396		353,396	1
Receivable Specialty Surplus Insurance Company	9,145,360	897,734	8,247,626	
Claims advance	266,133		266,133	
Receivable Kemper Indemnity Insurance Company	1,004,397	415,385	589,012	
Miscellaneous receivable	(98,463)		(98,463)	
Total Assets	**$943,221,438**	**$3,769,550**	**$939,451,888**	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2004

		Notes
Losses	$319,560,797	2
Reinsurance payable on paid loss and loss adjustment expenses	131,742	
Loss adjustment expenses	117,820,053	2
Commission payable, contingent commissions	17,609,655	
Other expenses	1,022,909	
Taxes, licenses and fees	13,426	
Federal and foreign income taxes	2,987,461	
Unearned premiums	167,703,649	
Ceded reinsurance premiums payable	17,657,400	
Funds held by company under reinsurance treaties	16,748,690	
Amounts withheld or retained by company for account of others	1,159,950	
Provision for reinsurance	434,560	
Deposits held for New England Reinsurance Co. (Caliber One)	87,960	1
Deposits held for Northeastern Ins. Co. of Hartford (Caliber One)	4,334	1
Deposits held for Insurance Company of Americas (Caliber One)	250	1
Total Liabilities	$662,942,836	
Common capital stock	$4,500,000	
Gross paid in and contributed surplus	55,875,000	
Unassigned funds (surplus)	216,134,052	
Surplus as Regards Policyholders	$276,509,052	
Total Liabilities, Surplus and Other Funds	**$939,451,888**	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

UNDERWRITING AND INVESTMENT EXHIBIT
DECEMBER 31, 2004

Income:		
Premiums earned	$374,738,818	
Net investment income	24,828,668	
Net realized gains	7,251,851	
Miscellaneous income	43,664	
Total Income		$406,863,001
Expenses:		
Losses incurred	133,959,632	
Loss expenses incurred	58,968,658	
Other underwriting expenses incurred	134,682,470	
Non-specific allowance for uncollectible reinsurance	(1,026,930)	
Total Expenses		326,583,830
Net income before dividends to policyholders and federal income taxes		80,279,171
Dividends to policyholders		0
Federal and foreign income taxes incurred		26,009,574
Net Income		**$54,269,597**

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

CAPITAL AND SURPLUS ACCOUNT
DECEMBER 31, 2003 TO DECEMBER 31, 2004

Surplus as regards policyholders, December 31, 2003		$217,399,248
Net income		54,269,597
Additions:		
Net unrealized capital gains	$25,793,635	
Change in non-admitted assets	5,581,259	
Change in provision for reinsurance	47,240	
Total Additions		31,422,134
Deductions:		
Change in net deferred income tax	(4,842,001)	
Dividends to stockholders	(21,739,924)	
Rounding	(2)	
Total Deductions		(26,581,927)
Change in surplus as regards policyholders for the year		59,109,804
Surplus as regards policyholders, December 31, 2004		**$276,509,052**

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

SCHEDULE OF EXAMINATION ADJUSTMENTS

There were no material adjustments to the Company's financial statement that warranted disclosure in this examination report.

NOTES TO THE FINANCIAL STATEMENTS

(Note 1)

Receivable Caliber One Indemnity Company	**$353,396**
Deposits Held For New England Reinsurance Co. (Caliber One)	**$87,960**
Deposits Held For Northeastern Ins. Co. of Hartford (Caliber One)	**$4,334**
Deposits Held For Ins. Co. of Americas (Caliber One)	**$250**

On January 2, 2003, Northern Homelands Company acquired all of Caliber One Indemnity Company's (Caliber One) issued and outstanding shares from PMA Capital Insurance Company and renamed the insurer Maxum Indemnity Company. Caliber One was purchased as a clean shell with business prior to 2003 retained or reinsured by the previous owners.

The Company reflected a receivable and three payables related to Caliber One on its balance sheet at December 31, 2004. It was noted that two of the payable accounts were reflected with identical balances in the previous examination.

It is recommended that the Company determine the proper party related to the balance sheet accounts and determine the accuracy of these balances. It is recommended that the Company give consideration to eliminating the stale balances from its balance sheet.

(Note 2)
Losses and Loss Adjustment Expenses

Losses	**$319,560,797**
Loss Adjustment Expenses	**$117,820,053**

INS Consultants, Inc. (INS) was retained and performed an independent analysis of the Company's gross and net loss and loss adjustment expense reserves as of December 31, 2004. The Company's carried gross reserve of $598.8 million is higher than the INS' estimate by $57.4

million, or 9.6% of the carried reserve. The Company's carried net reserve of $437.4 million is higher than the INS' estimate by $40.1 million, or 9.2% of the carried reserve. Therefore, it was concluded that the Company's gross and net reserves for losses and loss adjustment expenses were adequate at December 31, 2004.

Data Verification

INS' findings were contingent on the successful completion of the verification of a sample of the Company's underlying loss and loss adjustment expense data. A total of sixty (60) claim files were reviewed for verification of 840 attributes or 14 attributes in each claim file. We discovered a total of 7 errors in the initial review. The Company was able to provide additional information to clear all 7 errors. Therefore, it was concluded that no exceptions were noted in the sample and the Company's underlying data for losses and loss adjustment expenses was adequate at December 31, 2004.

MARKET CONDUCT ACTIVITIES

We did not perform a market conduct review of the Company covered by the examination period. The Delaware Department of Insurance has a Market Conduct Division responsible for market conduct examinations.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there was prior examination recommendation. All prior examination recommendations were either directly or indirectly addressed in the current examination. It should be noted that there was one recommendation made in the prior examination report and it was determined that the Company is in compliance with the recommendation in the current examination.

SUMMARY OF RECOMMENDATIONS

Examination recommendations as of December 31, 2004 consisted of the following:

Reinsurance - It is recommended that the Company adhere to the NAIC annual statement instructions in accordance with Title 18, Chapter 5, §526(a) until a request to and approval from the Delaware Department of Insurance for a permitted practice is obtained. (Page 15)

Account and Records - It is recommended that the Company give consideration to the INS Services, Inc. findings and begin implementing their recommendations regarding the Company's IT operations as noted in their independent report. (Page 19)

(Note 1)
Receivable Caliber One Indemnity Company
Deposits Held For New England Reinsurance Co. (Caliber One)
Deposits Held For Northeastern Ins. Co. of Hartford (Caliber One)
Deposits Held For Ins. Co. of Americas (Caliber One) - It is recommended that the Company determine the proper party related to the balance sheet accounts and determine the accuracy of these balances. It is recommended that the Company give consideration to eliminating the stale balances from its balance sheet. (Page 25)

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods.

Description	December 31, 2004	December 31, 2001	Increase
Admitted Assets	$939,451,888	$495,172,921	$444,278,967
Liabilities	662,942,836	387,137,467	275,805,369
Surplus as regards Policyholders	276,509,052	108,035,454	168,473,598

We conclude that the company is in compliance with the surplus requirements of the Delaware Insurance Code, Section 511(a), for the kinds of insurance the Company is authorized to write. At December 31, 2004 that requirement amounted to $750,000.

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,

Steven C. Gregory

Steven C. Gregory, CFE, FLMI, AIE
Examiner-In-Charge
State of Delaware

SUBSEQUENT EVENTS

On January 12, 2005, the Delaware Department of Insurance approved a Binding Authority Agreement between the Company, Underwriting Management, Inc. and its affiliates, Shand Morahan & Company, Inc., Markel Service, Inc. d/b/a Markel Underwriters and Brokers, American Underwriting Managers Agency, Inc., Markel West, Inc., Markel Southwest Underwriters, Inc., and Investors Underwriting Managers, Inc.

On March 21, 2005, the Board of Directors of the Company declared an ordinary dividend of $47,017,746, which was paid on April 5, 2005 to its sole shareholder of record, Markel Corporation. This dividend was paid by transfer of securities with a fair market value of $47, 012,512 and cash in the amount of $5,234.

In April of 2005, Trenwick America Reinsurance, Chartwell Reinsurance Company and LaSalle Re ("the Reinsuers") and Markel Corporation on behalf of all its insurance company affiliates agreed to a confidential global commutation. The commercial commutation was based upon the total of all insurance company affiliates paid losses, loss reserves, IBNR, and premium adjustments negotiated to an agreed present value. Management of each insurance company participated in the discussions and strategies involved in negotiating the commutation. The commutation releases all obligations between the parties including claims and counterclaims brought in litigation. The Company received cash in the amount of $7.27 million to apply to commuted reserves of $8.85 million, resulting in a commutation loss of $1.58 million.

During the third quarter of 2005, the Company suffered losses as a result of losses associated with Hurricanes Katrina and Rita. The Company has determined that its RBC level for the 2005 3rd quarter will reach the "Company Action Level RBC" as a result of these losses. The Company's parent, Markel Corporation indicated if necessary, it would contribute the necessary capital to the Company in order to eliminate the "Company Action Level RBC" by the end of the year.

During the 4th quarter of 2005, the Company suffered losses as a result of losses associated with Hurricane Wilma.

Throughout the 4th quarter of 2005, the Company analyzed their losses resulting from Hurricanes Katrina, Rita and Wilma. The reserves posted in the 4th quarter for Hurricane Wilma were more than offset by the reserves taken down on Hurricanes Katrina and Rita due to this analysis. As a result of the improvement in the estimates for the hurricanes' losses, Markel Corporation determined that a capital contribution to the Company would not be made. The Company determined that policyholders' surplus at December 31, 2005, exceeded the "Company Action Level RBC."

Due to the timing of posting reserves of the Louisiana hurricanes, several non-affiliated alien reinsurers were not able to meet security requirements for credit for reinsurance purposes. On December 31, 2005, Markel posted a letter of credit for $20,000,000 with Essex as the beneficiary as substitute security until the involved reinsurers substitute security. As of March 2, 2006, this letter of credit was canceled.

On December 28, 2005, Essex borrowed $20,000,000 from Markel pursuant to the terms of the revolving credit arrangement with Markel. The short term demand note bears interest from the date of advance until repaid at the prime rate announced by Wachovia National Bank from time to time. This loan was paid back to Markel on January 19, 2006, along with accrued interest in the amount of $87,397.